

Background

This proposal is an outgrowth of the Age 65 study and was presented as one of the Age 65 Retirement Options. A rule of 90 would provide unreduced retirement benefits to vested members of the TRS, SERS and PERS Plans 2/3 for whom the sum of the number of years of the member's age and the number of years of the member's service credit equals ninety or more.

Committee Activity

Presentations:

October 19, 2004 - Full Committee
November 9, 2004 - Executive Committee
December 7, 2004 - Full Committee

Subgroup Activity:

October 14, 2004 - Subgroup meeting
November 5, 2004 - Subgroup meeting

Proposal:

December 7, 2004 - Full Committee

Recommendation to Legislature

A "modified" (or more restrictive) rule of 90 was recommended as part of the Plan 3 Gain-Sharing proposal. See the specific tab entitled Plan 3 Gain-Sharing.

Staff Contact

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Select Committee on Pension Policy

Rule of 90 Proposal

(November 29, 2004)

Issue

The issue before the full SCPP is whether to propose legislation to provide unreduced retirement to vested members of the TRS, SERS and PERS Plans 2/3 for whom the sum of the number of years of the member's age and the number of years of the member's service credit equals ninety or more.

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Members Impacted

It is estimated that the following members would be impacted by this bill: 82,259 out of 117,262 active members in PERS 2; 13,497 out of 17,548 active members in PERS 3; 5,209 out of 7,637 active members in TRS 2; 37,310 out of 47,263 active members in TRS 3; 12,455 out of 21,504 active members in SERS 2; and 16,167 out of 27,710 active members in SRS 3.

Current Situation

Currently, in the PERS, TRS and SERS Plans 2/3, a vested member is eligible for either normal, early or alternate early retirement. The early retirement provisions involve reduced benefits. Normal retirement is a full, unreduced benefit. In the Plans 2 normal retirement is currently available to any member who is at least age sixty-five and who has completed five service credit years. In the Plans 3 normal retirement (for the defined benefit portion of the plan) is currently available to any member who is at least age 65 and who has completed ten service credit years, or who has completed five service years including twelve service credit

months after attaining age 54. This bill would provide an unreduced retirement benefit to any vested Plan 2/3 member who satisfies the rule of 90.

Proposal

A "rule of 90" would allow vested members to receive an unreduced retirement benefit when they reach any combination of age and service that totals ninety. For example, an employee who became a plan member at age 20 could retire at age 55 with 35 years of service. Similarly, a plan member who began working at age 30 could retire at age 60 with a full benefit. Those who become plan members at age 40 or later would not benefit from the rule of 90, as there would be no combination of age and service that could result in a full retirement benefit earlier than age 65, the current normal retirement age for the Plans 2/3.

The following table illustrates the operation of a rule of 90 for any retirement system:

Illustration of Rule of 90			
Age of Hire	Years of Service	Retire Age	Age Plus Years of Service
20	35	55	90
22	34	56	90
24	33	57	90
26	32	58	90
28	31	59	90
30	30	60	90
32	29	61	90
24	28	62	90
36	27	63	90
38	26	64	90
40	25	65	90

Members of the TRS would benefit more from a Rule of 90 than members of PERS or SERS because they have lower entry ages and longer service years.

Relative Value of Rule of 90 Among Retirement Systems				
System	Average Age	Average Service	Average Age at Hire	"Rule of 90" Age
TRS	44	11	33	61.5
PERS	45	10	35	62.5
SERS	46	7	39	64.5

Policy Analysis

A rule of 90 would move toward a more career-based retirement benefit for the Plans 2/3 in that younger workers would be rewarded for long-term public service by receiving an unreduced retirement benefit prior to the time at which they would normally be expected to leave the workforce. The cost of a life-time benefit for such individuals would be higher because the benefit would be paid over a longer period of time.

It should be noted that the SCPP is also considering a modified rule of 90 as part of a Plan 3 gain-sharing trade-off proposal. This modified rule of 90 would apply only to vested members who are at least age sixty. Under the modified rule, the unreduced retirement benefit would be available only for service credit earned after the effective date of the bill (July 1, 2007). The portion of the benefit attributed to service credit earned before the effective date of the bill would be subject to the usual required reductions for early retirement. The modifications to the rule of 90 found in the Plan 3 gain-sharing trade-off proposal have been included to lower the cost of the rule of 90. Also, the minimum age of 60 creates less departure from the age-based designs of the Plans 2/3.

For additional policy analysis, see the Age 65 Retirement Options report dated October 12, 2004 and the Age 65 Retirement Report dated September 1, 2004.

Procedural Posture/Executive Committee Recommendation

As the result of the September 7, 2004 briefing of the Select Committee on Pension Policy (SCPP) on the issue of Age 65 Retirement, an “age 65 subgroup” was formed to make specific recommendations to the SCPP. Last month the Age 65 subgroup recommended to the Executive Committee that the SCPP consider legislation to provide unreduced retirement according to a “Rule of 90” for members of the TRS, SERS and PERS Plans 2/3. On November 9, 2004, the Executive Committee directed staff to prepare a bill draft and fiscal note on the Rule of 90 proposal for the December meeting.

Bill (Draft)

The bill draft for this proposal is attached.

Fiscal Note (Draft)

The fiscal note for this proposal is attached.

1 AN ACT Relating to providing unreduced retirement benefits in plans
2 2 and 3 of the public employees' retirement system, the teachers'
3 retirement system, and the school employees' retirement system;
4 amending RCW 41.40.630, 41.40.820, 41.32.765, 41.32.875, 41.35.420, and
5 41.35.680; and providing an effective date.

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

7 **Sec. 1.** RCW 41.40.630 and 2000 c 247 s 901 are each amended to
8 read as follows:

9 (1) NORMAL RETIREMENT. Any member with at least five service
10 credit years who has attained at least age sixty-five shall be eligible
11 to retire and to receive a retirement allowance computed according to
12 the provisions of RCW 41.40.620.

13 (2) UNREDUCED RETIREMENT. Any member who has completed at least
14 five service credit years and for whom the sum of the number of years
15 of the member's age and the number of years of the member's service
16 credit equals ninety or more shall be eligible to retire and receive a
17 retirement allowance computed according to the provisions of RCW
18 41.40.620.

1 (3) EARLY RETIREMENT. Any member who has completed at least twenty
2 service credit years and has attained age fifty-five shall be eligible
3 to retire and to receive a retirement allowance computed according to
4 the provisions of RCW 41.40.620, except that a member retiring pursuant
5 to this subsection shall have the retirement allowance actuarially
6 reduced to reflect the difference in the number of years between age at
7 retirement and the attainment of age sixty-five.

8 ((+3+)) (4) ALTERNATE EARLY RETIREMENT. Any member who has
9 completed at least thirty service credit years and has attained age
10 fifty-five shall be eligible to retire and to receive a retirement
11 allowance computed according to the provisions of RCW 41.40.620, except
12 that a member retiring pursuant to this subsection shall have the
13 retirement allowance reduced by three percent per year to reflect the
14 difference in the number of years between age at retirement and the
15 attainment of age sixty-five.

16 **Sec. 2.** RCW 41.40.820 and 2000 c 247 s 309 are each amended to
17 read as follows:

18 (1) NORMAL RETIREMENT. Any member who is at least age sixty-five
19 and who has:

20 (a) Completed ten service credit years; or

21 (b) Completed five service credit years, including twelve service
22 credit months after attaining age fifty-four; or

23 (c) Completed five service credit years by the transfer payment
24 date specified in RCW 41.40.795, under the public employees' retirement
25 system plan 2 and who transferred to plan 3 under RCW 41.40.795;
26 shall be eligible to retire and to receive a retirement allowance
27 computed according to the provisions of RCW 41.40.790.

28 (2) UNREDUCED RETIREMENT. Any member who has completed the number
29 of service credit years required in subsection (1) of this section and
30 for whom the sum of the number of years of the member's age and the
31 number of years of the member's service credit equals ninety or more
32 shall be eligible to retire and receive a retirement allowance computed
33 according to the provisions of RCW 41.40.790.

34 (3) EARLY RETIREMENT. Any member who has attained at least age
35 fifty-five and has completed at least ten years of service shall be
36 eligible to retire and to receive a retirement allowance computed
37 according to the provisions of RCW 41.40.790, except that a member

1 retiring pursuant to this subsection shall have the retirement
2 allowance actuarially reduced to reflect the difference in the number
3 of years between age at retirement and the attainment of age sixty-
4 five.

5 ~~((+3+))~~ (4) ALTERNATE EARLY RETIREMENT. Any member who has
6 completed at least thirty service credit years and has attained age
7 fifty-five shall be eligible to retire and to receive a retirement
8 allowance computed according to the provisions of RCW 41.40.790, except
9 that a member retiring pursuant to this subsection shall have the
10 retirement allowance reduced by three percent per year to reflect the
11 difference in the number of years between age at retirement and the
12 attainment of age sixty-five.

13 **Sec. 3.** RCW 41.32.765 and 2000 c 247 s 902 are each amended to
14 read as follows:

15 (1) NORMAL RETIREMENT. Any member with at least five service
16 credit years of service who has attained at least age sixty-five shall
17 be eligible to retire and to receive a retirement allowance computed
18 according to the provisions of RCW 41.32.760.

19 (2) UNREDUCED RETIREMENT. Any member who has completed at least
20 five service credit years and for whom the sum of the number of years
21 of the member's age and the number of years of the member's service
22 credit equals ninety or more shall be eligible to retire and receive a
23 retirement allowance computed according to the provisions of RCW
24 41.32.760.

25 (3) EARLY RETIREMENT. Any member who has completed at least twenty
26 service credit years of service who has attained at least age fifty-
27 five shall be eligible to retire and to receive a retirement allowance
28 computed according to the provisions of RCW 41.32.760, except that a
29 member retiring pursuant to this subsection shall have the retirement
30 allowance actuarially reduced to reflect the difference in the number
31 of years between age at retirement and the attainment of age sixty-
32 five.

33 ~~((+3+))~~ (4) ALTERNATE EARLY RETIREMENT. Any member who has
34 completed at least thirty service credit years and has attained age
35 fifty-five shall be eligible to retire and to receive a retirement
36 allowance computed according to the provisions of RCW 41.32.760, except
37 that a member retiring pursuant to this subsection shall have the

1 retirement allowance reduced by three percent per year to reflect the
2 difference in the number of years between age at retirement and the
3 attainment of age sixty-five.

4 **Sec. 4.** RCW 41.32.875 and 2000 c 247 s 903 are each amended to
5 read as follows:

6 (1) NORMAL RETIREMENT. Any member who is at least age sixty-five
7 and who has:

8 (a) Completed ten service credit years; or

9 (b) Completed five service credit years, including twelve service
10 credit months after attaining age fifty-four; or

11 (c) Completed five service credit years by July 1, 1996, under plan
12 2 and who transferred to plan 3 under RCW 41.32.817;
13 shall be eligible to retire and to receive a retirement allowance
14 computed according to the provisions of RCW 41.32.840.

15 (2) UNREDUCED RETIREMENT. Any member who has completed the number
16 of service credit years required in subsection (1) of this section and
17 for whom the sum of the number of years of the member's age and the
18 number of years of the member's service credit equals ninety or more
19 shall be eligible to retire and receive a retirement allowance computed
20 according to the provisions of RCW 41.32.840.

21 (3) EARLY RETIREMENT. Any member who has attained at least age
22 fifty-five and has completed at least ten years of service shall be
23 eligible to retire and to receive a retirement allowance computed
24 according to the provisions of RCW 41.32.840, except that a member
25 retiring pursuant to this subsection shall have the retirement
26 allowance actuarially reduced to reflect the difference in the number
27 of years between age at retirement and the attainment of age sixty-
28 five.

29 ((+3+)) (4) ALTERNATE EARLY RETIREMENT. Any member who has
30 completed at least thirty service credit years and has attained age
31 fifty-five shall be eligible to retire and to receive a retirement
32 allowance computed according to the provisions of RCW 41.32.840, except
33 that a member retiring pursuant to this subsection shall have the
34 retirement allowance reduced by three percent per year to reflect the
35 difference in the number of years between age at retirement and the
36 attainment of age sixty-five.

1 **Sec. 5.** RCW 41.35.420 and 2000 c 247 s 905 are each amended to
2 read as follows:

3 (1) NORMAL RETIREMENT. Any member with at least five service
4 credit years who has attained at least age sixty-five shall be eligible
5 to retire and to receive a retirement allowance computed according to
6 the provisions of RCW 41.35.400.

7 (2) UNREDUCED RETIREMENT. Any member who has completed at least
8 five service credit years and for whom the sum of the number of years
9 of the member's age and the number of years of the member's service
10 credit equals ninety or more shall be eligible to retire and receive a
11 retirement allowance computed according to the provisions of RCW
12 41.35.400.

13 (3) EARLY RETIREMENT. Any member who has completed at least twenty
14 service credit years and has attained age fifty-five shall be eligible
15 to retire and to receive a retirement allowance computed according to
16 the provisions of RCW 41.35.400, except that a member retiring pursuant
17 to this subsection shall have the retirement allowance actuarially
18 reduced to reflect the difference in the number of years between age at
19 retirement and the attainment of age sixty-five.

20 (~~((+3))~~) (4) ALTERNATE EARLY RETIREMENT. Any member who has
21 completed at least thirty service credit years and has attained age
22 fifty-five shall be eligible to retire and to receive a retirement
23 allowance computed according to the provisions of RCW 41.35.400, except
24 that a member retiring pursuant to this subsection shall have the
25 retirement allowance reduced by three percent per year to reflect the
26 difference in the number of years between age at retirement and the
27 attainment of age sixty-five.

28 **Sec. 6.** RCW 41.35.680 and 2000 c 247 s 906 are each amended to
29 read as follows:

30 (1) NORMAL RETIREMENT. Any member who is at least age sixty-five
31 and who has:

32 (a) Completed ten service credit years; or

33 (b) Completed five service credit years, including twelve service
34 credit months after attaining age fifty-four; or

35 (c) Completed five service credit years by September 1, 2000, under
36 the public employees' retirement system plan 2 and who transferred to
37 plan 3 under RCW 41.35.510;

1 shall be eligible to retire and to receive a retirement allowance
2 computed according to the provisions of RCW 41.35.620.

3 (2) UNREDUCED RETIREMENT. Any member who has completed the number
4 of service credit years required in subsection (1) of this section and
5 for whom the sum of the number of years of the member's age and the
6 number of years of the member's service credit equals ninety or more
7 shall be eligible to retire and receive a retirement allowance computed
8 according to the provisions of RCW 41.35.620.

9 (3) EARLY RETIREMENT. Any member who has attained at least age
10 fifty-five and has completed at least ten years of service shall be
11 eligible to retire and to receive a retirement allowance computed
12 according to the provisions of RCW 41.35.620, except that a member
13 retiring pursuant to this subsection shall have the retirement
14 allowance actuarially reduced to reflect the difference in the number
15 of years between age at retirement and the attainment of age sixty-
16 five.

17 ((+3+)) (4) ALTERNATE EARLY RETIREMENT. Any member who has
18 completed at least thirty service credit years and has attained age
19 fifty-five shall be eligible to retire and to receive a retirement
20 allowance computed according to the provisions of RCW 41.35.620, except
21 that a member retiring pursuant to this subsection shall have the
22 retirement allowance reduced by three percent per year to reflect the
23 difference in the number of years between age at retirement and the
24 attainment of age sixty-five.

25 NEW SECTION. **Sec. 7.** This act takes effect July 1, 2007.

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DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/01/04	Z-0241.1/Z-0253.1

SUMMARY OF BILL:

This bill impacts the Plans 2 and 3 of the Public Employees' Retirement System (PERS), the Teachers' Retirement System (TRS) and the School Employees' Retirement System (SERS) by offering unreduced retirement to any vested member for whom the sum of the number of years of the member's age and the number of years of the member's service credit equals ninety or more ("rule of 90").

Effective Date: July 1, 2007

CURRENT SITUATION:

Currently, in the PERS, TRS and SERS Plans 2/3, a member is eligible for either normal, early or alternate early retirement. The early retirement provisions involve reduced benefits. Normal retirement is a full benefit.

In the Plans 2, normal retirement is available to those who have earned at least five years of service credit and who have attained age 65. This bill would add another category of retirement that involves a full or "unreduced" benefit. It would apply to any vested member for whom the sum of the number of years of the member's age and the number of years of the member's service credit equals ninety or more ("rule of 90").

In the Plans 3, normal retirement is currently available to any member who is at least age 65 and who has completed ten service credit years, or who has completed five service years including twelve service credit months after attaining age 54. This bill would provide an unreduced retirement benefit to any vested Plan 3 member who satisfies the rule of 90.

MEMBERS IMPACTED:

We estimate that 82,259 members out of 117,262 active members in PERS 2, 13,497 out of 17,548 active members in PERS 3, 5,209 out of 7,637 active members in TRS 2, 37,310 members out of 47,263 active members in TRS 3, 12,455 out of 21,504 active members in SERS 2, and 16,167 members out of 27,710 active members in SERS 3 would be affected by this bill.

For a member impacted by this bill, the increase in benefits would be the removal of benefit reduction for early retirement without the Rule of 90. For example, a member retiring at age 60 with 30 years of service would be entitled to an unreduced benefit instead of a benefit with a 15% reduction.

ASSUMPTIONS:

We assumed that there would be an increase in retirement rates due to the rule of 90. The additional rates or “kickers” are provided at the end of this fiscal note.

FISCAL IMPACT:

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System (for existing members impacted by this bill) and the required actuarial contribution rate as shown below:

<i>(Dollars in Millions)</i>		Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	PERS 2/3	\$ 14,278	\$ 762	\$ 15,040
	TRS 2/3	\$ 5,220	\$ 383	\$ 5,603
	SERS 2/3	\$ 2,138	\$ 83	\$ 2,221
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	PERS 1	\$ 2,620	\$ (25)	\$ 2,595
	TRS 1	\$ 1,416	\$ (24)	\$ 1,392
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	PERS 2/3	\$ (3,184)	\$ 402	\$ (2,782)
	TRS 2/3	\$ (1,397)	\$ 183	\$ (1,214)
	SERS 2/3	\$ (425)	\$ 46	\$ (379)

Increase in Contribution Rates: (Effective 9/1/2005)

Employee (plan 2 only)	PERS 2	0.73%
	TRS 2	1.00%
	SERS 2	0.57%
Employer	PERS	0.73%
	TRS	1.04%
	SERS 2/3	0.63%

The PERS Employer rate increase of 0.73% is made up of a normal cost rate increase of 0.75% minus a Plan 1 UAAL rate decrease of 0.02%.

The TRS Employer rate increase of 1.04% is made up of a normal cost rate increase of 1.10% minus a Plan 1 UAAL rate decrease of 0.06%.

The SERS Employer rate increase of 0.63% is made up of a normal cost rate increase of 0.65% minus a Plan 1 UAAL rate decrease of 0.02%.

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

Costs (in Millions):	PERS	TRS	SERS	Total
2005-2007				
State:				
General Fund	\$18.3	\$65.3	\$8.0	\$91.6
Non-General Fund	<u>30.2</u>	<u>0.0</u>	<u>0.0</u>	<u>30.2</u>
Total State	48.5	65.3	8.0	121.8
Local Government	43.0	13.4	7.1	63.5
Total Employer	91.5	78.7	15.1	185.3
 Total Employee	 \$65.3	 \$8.6	 \$4.8	 \$78.7
2007-2009				
State:				
General Fund	\$20.5	\$69.0	\$8.7	\$98.2
Non-General Fund	<u>33.8</u>	<u>0.0</u>	<u>0.0</u>	<u>33.8</u>
Total State	54.3	69.0	8.7	132.0
Local Government	48.2	14.1	7.7	70.0
Total Employer	102.5	83.1	16.4	202.0
 Total Employee	 \$70.3	 \$8.6	 \$4.9	 \$83.8
2005-2030				
State:				
General Fund	\$316.5	\$1,213.6	\$130.0	\$1,660.1
Non-General Fund	<u>522.1</u>	<u>0.0</u>	<u>0.0</u>	<u>522.1</u>
Total State	838.6	1,213.6	130.0	2,182.2
Local Government	743.6	248.5	115.2	1,107.3
Total Employer	1,582.2	1,462.1	245.2	3,289.5
 Total Employee	 \$898.9	 \$61.4	 \$36.6	 \$996.9

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2003 actuarial valuation report of the Teachers Retirement System, School Employee's Retirement System, and Public Employee's Retirement System.
2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.
3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

Rule of 90						
Kicker Added to Retirement Probability						
	PERS Male	PERS Female	SERS Male	SERS Female	TRS Male	TRS Female
Age						
55	0.35	0.29	0.30	0.30	0.30	0.30
56	0.35	0.29	0.30	0.30	0.30	0.30
57	0.35	0.29	0.30	0.30	0.30	0.30
58	0.29	0.22	0.30	0.30	0.30	0.30
59	0.29	0.22	0.30	0.30	0.30	0.30
60	0.29	0.22	0.30	0.30	0.30	0.30
61	0.29	0.22	0.25	0.30	0.30	0.30
62	0.29	0.16	0.25	0.20	0.30	0.20
63	0.11	0.16	0.25	0.20	0.25	0.20
64	0.11	0.16	0.25	0.20	0.25	0.20

The kicker (additional retirement rate) is added to the retirement probability at the age when a member is first eligible for the Rule of 90. For each year after the year first eligible, 25% of the kicker is added.

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
5. This fiscal note is intended for use only during the 2005 Legislative Session.
6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.
7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

8. The entry age normal cost increase for the bill is 0.27% for PERS Plan 2 members, 0.28% for PERS employers, 0.59% for TRS employers, and 0.24% for SERS employers. The entry age normal cost increase was used to determine the increase in funding expenditures for future new entrants.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Actuarial accrued liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.